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FISCAL IMPACT STATEMENT

LS 7302

BILL NUMBER: HB 1344

NOTE PREPARED: Feb 23, 2009

BILL AMENDED: Feb 23, 2009

SUBJECT: Administration of property tax deductions.

FIRST AUTHOR: Rep. Pryor

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Standard Deduction:* The bill requires an application for a property tax standard deduction to include: (1) the last five digits of the applicant's Social Security number and the last five digits of the Social Security number of the applicant's spouse; (2) the applicant's name either as it appears in the records of the Social Security Administration or as it appears when the individual signs the individual's name on legal documents; and (3) information concerning any other location where the applicant or the applicant's spouse owns, is buying on contract, or has a beneficial interest in residential property.

The bill requires sales disclosure forms, closing agent forms, and property tax bills to include information concerning the consequences of claiming more than one standard deduction and the procedures and deadlines for terminating a standard deduction. The bill establishes other filing requirements for a standard deduction that are similar to the filing requirements that applied to homestead credit applications.

Recorded Instruments: The bill requires instruments recorded with the county recorder, in certain cases, to identify an individual's name either as it appears in the records of the Social Security Administration or as it appears when the individual signs the individual's name on legal documents.

Provisional Tax Statements: This bill provides that a county treasurer may apply a property tax deduction or homestead credit on a provisional tax statement and requires deductions and credits to be applied if a provisional statement is used two consecutive years.

Improper Deductions and Credits: This bill requires tax statements in 2009, 2010, or 2011, as determined by the county auditor, to include a form for persons to use to verify the deductions and credits to which the person is entitled and, if the person has a standard deduction, to provide the county auditor with the last five

digits of the person's Social Security number.

This bill imposes a civil penalty of 10% of the tax due for a person who wrongly takes a standard deduction or credit. It provides that the county auditor shall prepare and send a notice of taxes due when a standard deduction is wrongly claimed. The bill permits a county auditor to use delinquent taxes, interest, and penalties collected in response to the termination of a standard deduction to pay for the costs of discovering erroneously granted standard deductions and for other expenses of the office of the county auditor, including the cost of verification notices on tax statements.

Sales Disclosure Form: This bill also makes other changes to reconcile differences in the law related to the enactment of HEA 1001-2008 and HEA 1293-2008.

Effective Date: July 1, 2009.

Explanation of State Expenditures: (Revised) *Standard Deduction - Applications:* The Department of Local Government Finance (DLGF) would have to amend the sales disclosure form (SDF) to include instructions and information that would permit a taxpayer to terminate a standard deduction on a property that is no longer homestead-eligible. The information would include an explanation of the tax consequences and penalties for unlawfully claiming a standard deduction.

The DLGF designs the SDF and also maintains a web site for electronic entry of the forms. Minor changes would need to be made to both the paper form and the web site to allow for the changes under this bill. The DLGF should be able to make these changes within its existing level of resources.

Standard Deduction - Eligibility: Under this proposal, the DLGF would be required to maintain a homestead property database with secure access for county auditors. The database must include the owner's name and the last five digits of the owner(s) social security number(s). The database would be used to verify whether a property owner is wrongly claiming deductions and credits that are available against homestead property. The DLGF already maintains a homestead lookup database that may be used by local officials. The database includes the name and address of the homestead owner and the property parcel number. The last five digits of the social security number would have to be added and the access would have to be secured. The DLGF should be able to make these changes within its existing level of resources.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Standard Deduction - Eligibility:* Under current law, the county treasurer must annually mail a tax statement, called a TS-1, to each property owner. Under this bill, the TS-1 would have to contain the procedure and deadline for a taxpayer to notify the county that property no longer qualifies for a deduction or credit that has been previously granted.

Once, in 2009, 2010, or 2011, the treasurer would also have to include an additional notice on different colored paper along with the mailing of the TS-1. The notice would explain the tax consequences and penalties for unlawfully claiming a standard deduction. Homeowners would return a verification of homestead deduction eligibility that includes the individual and spouse's names as they appear in Social Security Administration records or as they appear when signing legal documents and the last five digits of their social security numbers.

If the tax statement is returned to the county treasurer as undeliverable with an expired forwarding order, the

county auditor may remove all deductions and credits from the property.

The additional printing and handling of the notice would increase the treasurer's expense for sending the TS-1. There are just over 1.7 M homesteads statewide. Funds from the county auditor's non-reverting fund may be used for this purpose.

Recorded Instruments: Under this provision, an instrument that is recorded after June 30, 2009, that conveys ownership in a dwelling, and is executed by at least one individual must affirm or identify an individual's name as it appears in Social Security Administration records or as it appears when signing legal documents. The county recorder would be required to cross reference these names with the names on existing records.

Explanation of Local Revenues: (Revised) *Homesteads - Generally:* The homestead standard deduction equals \$45,000, limited to 60% of the homestead's gross assessed value. Homeowners who receive the standard deduction also receive the supplemental standard deduction that provides an additional deduction of up to 35% of the net AV remaining after application of the standard deduction. Additionally, homesteads in many counties also receive county-funded homestead credits. In 2010, the net property tax on homesteads will be limited to 1% of gross AV whereas non-homestead residential property will have a 2% circuit breaker cap.

Many provisions of this bill would assist county auditors in their duty to ensure that only eligible taxpayers receive the standard deduction and other homestead benefits on only one property. If these provisions result in a reduction the number of properties with homestead status, then the increased tax base would shift a part of the tax burden from all taxpayers to the now homestead-ineligible properties. The amount of county-funded credits credited to the remaining homesteads would, for the most part, be increased. The higher tax cap for the now homestead-ineligible properties would increase property tax collections for taxing units where net taxes for some homesteads exceed the 1% circuit breaker cap.

Standard Deduction - Applications: Before the passage of HEA 1001-2008, homeowners filed an application for the state homestead credit and the standard deduction was automatically granted to all homeowners who received the credit. Since the homestead credit was eliminated by HEA 1001-2008, homeowners must now apply directly for the standard deduction. This bill reconciles multiple versions of the deduction statutes and completes the transformation so that the eligibility and filing requirements for the standard deduction are similar to those of the former homestead credit. Under this bill, homeowners may apply for the standard deduction on a SDF and may apply at any time during the assessment year to be effective for taxes payable in the following year.

Under previous law, an application for the homestead credit had to include the name of any other county and township in which the applicant owns or is buying real property. This bill would require that an application for the standard deduction include the name of any location in which the applicant or spouse owns, is buying, or has a beneficial interest in, real property.

The application would have to include the applicant and spouse's names both as they appear in Social Security Administration records and as they appear when signing legal documents. The bill would also require the transferee and spouse to include the last five digits of their social security numbers.

Standard Deduction - Penalty Provisions: Under this bill, a taxpayer must notify the county auditor within 60 days of any change in the use of homestead property that renders all or part of the property ineligible for the standard deduction. Failure to make the notification would result in a liability for the taxes that would

have been due on the property without the deductions and associated credits plus a penalty equal to 10% of the additional tax. The county auditor would issue a notice of tax, interest, and penalties due. The notice must require full payment within 30 days. Unpaid amounts after 30 days would be added to the tax duplicate and collected as other taxes.

Under the bill, each county auditor would be required to establish a non-reverting fund for deposit of delinquent taxes, penalties, and interest collected within 30 days of billing from taxpayers who received the standard deduction and associated benefits but were found to be ineligible. Money in the fund could only be used, without appropriation, by the county auditor to cover fees and costs incurred in the discovery of improper standard deductions and homestead credits, for other expenses of the auditor's office, and for the costs associated with the additional notices to be included with tax bills. These funds may not be considered in setting the auditor's budget or the county's tax levy.

Provisional Tax Statements: Under current law, a county may elect to send out provisional tax statements to its taxpayers if the county abstract is not completed by March 15th of the tax payment year. The abstract is prepared when tax rates are certified and tax bills are figured. Provisional bills are based on 90% of the previous year's taxes. The first installment is due on May 10th unless the notice of reassessment or trended assessment is sent after March 26th, in which case the payment is due 45 days after the tax billing statement is mailed. The second installment is due on November 10th unless the May due date was delayed, in which case the November due date may be moved to any date through December 31st.

Under this proposal, the May 10th and November 10th installment dates would no longer be specified. The county treasurer would have the option of applying deductions and credits on a provisional bill but would be required to apply them if provisional billings have been used for two consecutive years. The provisional bill would have to include the procedure and deadline for a taxpayer to notify the county that a property no longer qualifies for a deduction or credit that has been previously granted. The statements would also have to include an explanation of the tax consequences and penalties for unlawfully claiming a standard deduction. The amount billed through provisional billings for some taxpayers could be reduced under this bill if the treasurer applies deductions and credits in a year that result in tax a bill equal to less than 90% of the previous year's bill. The full year's property taxes are settled through the reconciliation bill.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; County treasurers; County recorders.

Information Sources:

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